



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First Alliance Bancshares, Inc. and Subsidiary First Alliance Bank

Person to be contacted regarding this report:	Melanie L. Cooley, EVP
CPP Funds Received:	\$3,422,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	6/26/2009
Date Repaid ¹ :	

RSSD: (For Bank Holding Companies)	3640041
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	35245
City:	Cordova
State:	Tennessee

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	In 2009, the holding company raised capital to ensure the financial strength & lending capacity of the Bank (FAB). \$1,255M was raised through a common stock & debentures offering & \$3,422M was received through CPP. \$3,350M was contributed to FAB capital.
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<input checked="" type="checkbox"/>	<p>To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).</p>	<p>062909 loans totaled \$107MM w/ \$87MM (82%) secured by Real Estate & \$20MM (18%) non RE secured. 093009 loans totaled \$108MM w/ \$87M (81%) secured by RE & \$21MM (19%) no RE secured. 123109 loans totaled \$108MM w \$85MM (79%) secured by RE & \$23MM (21%) non RE secured.</p>
<input type="checkbox"/>	<p>Increase securities purchased (ABS, MBS, etc.).</p>	
<input type="checkbox"/>	<p>Make other investments</p>	
<input checked="" type="checkbox"/>	<p>Increase reserves for non-performing assets</p>	<p>063009 ALLL was \$2,283M or 2.13% of the loan portfolio. 093009 ALLL was \$2,797M or 2.58% of the loan portfolio. 123109 ALLL was \$2,843M or 2.64% of the loan portfolio.</p>

<input type="checkbox"/>	Reduce borrowings	
<input checked="" type="checkbox"/>	Increase charge-offs	Charge-offs for YE 123109 was \$898,712.21 or .83% of total YE loans (\$108MM). Additional write-downs to OREO & Other Assets at YE 123109 was \$330,753.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	CPP funds received 062609 were \$3,422,000 plus capital raised (debt & equity) through 123109 totaled \$4,677,148. \$3,350,000 was contributed to FAB capital & \$1,233,357.85 is currently being held in cash at the holding company level to service interest & dividend payments.

What actions were you able to avoid because of the capital infusion of CPP funds?

During 2009 First Alliance Bancshares, Inc. took a multi pronged approach to raising capital to ensure the financial strength and preserve the lending capacity of the Bank (FAB). Through a common stock and debentures offering it raised \$605,148 in new common equity, \$650,000 in corporate debt, and received \$3,422,000 in Capital Purchase Program funds for a sum of \$4,677,148. Of the \$4,677,148 total, \$3,350,000 was contributed as capital in FAB. This increased FAB capital from \$9,799,037 on December 31, 2008 to \$12,042,572 on December 31, 2009 and returned the bank to well capitalized status in all regulatory capital categories.

The board of directors of FAB has resolved to maintain tier 1 leverage capital of 8%, tier 1 risk based capital of 9% and total risk based capital of 11%. At December 31, 2009 FAB held tier 1 leverage capital of 8%, tier 1 risk based capital of 10.11% and total risk based capital of 11.38%.

At December 31, 2009 First Alliance Bancshares, Inc. maintained a cash balance of \$1,233,357.85. These dollars have been maintained at the holding company level and earmarked for interest and dividend payments for a five (5) year period beginning in 2009. Use of these funds for bank capital is not desired and would only be used for such purpose as a last resort. Preserving these balances at the holding company level will allow earnings from the bank to stay in the bank and provide additional FAB capital.

The CPP funds are directly related to FAB's ability to maintain well capitalized status and continue its lending programs. The lending program has been redirected from 1-4 family construction loans, residential lot loans and residential development loans to commercial and small business loans with a focus on SBA loans, credit lines, equipment loans and some owner occupied real estate loans. As noted above, the loan percentages of real estate versus non real estate secured loans are decreasing (from 82%/18% 062909 to 79%/21% 123109). At 062909 loans secured by real estate totaled \$87M or 82% of the loan portfolio and loans not secured by real estate totaled \$20M or 18% of the loan portfolio. At 093009 loans secured by real estate totaled \$87M or 81% and loans not secured by real estate totaled \$21M or 19%. At 123109 loans secured by real estate totaled \$85M or 79% and loans not secured by real estate totaled \$23M or 21%.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

Receipt of the Capital Purchase Program funds enabled FAB to hire a very experienced senior lender with a strong commercial lending background to build a small business lending emphasis and refocus FAB from its historical real estate dependence. Also, FAB was able to hire an additional commercial lender.

With the above in place, FAB restructured its lending staff into two (2) areas.

Area 1 Business Development

The senior lender has created two loan teams within his lending staff (Uptown and East Memphis). Each team consists of an account executive (very experienced lender), portfolio manager (experienced lender) and a loan administrative assistant (with loan experience). Each team is charged with developing new commercial and small business relationships (SBA loans, lines of credit, equipment loans, etc) along with managing and servicing existing loan portfolios.

Area 2 Special Assets

The special assets manager is an EVP level associate and a former real estate lender. His staff includes an experienced real estate lender of SVP level and an experienced loan administrative assistant. This area is charged with managing the workout of troubled real estate loans, Other Real Estate Owned and Other Repossessed Assets. The current recession has created a challenging environment for all financial institutions regarding the effects of substandard and non accruing loans, Other Real Estate Owned and Other Repossessed Assets on profitability. It has also created a need for human capital and other organizational resources to manage the process to ensure the best possible results. FAB has recognized this need and has devoted considerable human resources in the special assets area.

Receipt of the Capital Purchase Program funds allowed FAB to accomplish the above staff restructure.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

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